

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**WATER DIVISION
Water Advisory Branch**

**RESOLUTION NO. W-4271
May 24, 2001**

R E S O L U T I O N

**(RES. W-4271), SUBURBAN WATER SYSTEMS (SWS). ORDER
AUTHORIZING A DELAY IN FILING A GENERAL RATE CASE.**

BY LETTER OF MARCH 18, 2001

SUMMARY

Res. W-4180, dated February 3, 2000, ordered SWS to file a general rate case (GRC) by July 1, 2001. This resolution delays that filing.

BACKGROUND

SWS serves approximately 65,000 customers in its San Jose Hills and Whittier/La Mirada Districts. The utility is a subsidiary of the Southwest Water Company. The communities served by SWS are Glendora, Covina, West Covina, La Puente, Valinda, Industry, Hacienda Heights, Whittier, La Mirada, La Habra, Buena Park, and unincorporated areas in Los Angeles and Orange counties.

By Advice Letter No. 226-W, dated November 24, 1999 ("Advice Letter"), Suburban requested authority to: 1) serve certain territory formerly served by the City of West Covina Water System; 2) charge rates to City of West Covina customers that were lower than the City's rates; and 3) charge rates to City of Walnut customers that were slightly higher than the City's rates, after considering the User Fee (UF) surcharge which the City was not required to charge.

The Resolution authorized requests 1 and 2. As to request 3, the Resolution authorized slightly lower rates than were requested for City of Walnut customers. As a result, in addition to a rate reduction for customers in West Covina, customers in Walnut also realized rate reductions after the transfer,

though by a lesser amount than West Covina. The Resolution discussed this rate disparity at length and finally determined:

“In order to evaluate the rate differential, the Commission should order SWS to file a general rate application for its West Covina district operation.”

Similarly once it has 12 months of financial information about the consolidated operation, one of the Resolution’s ordering paragraphs requires that

“Suburban Water Systems shall file a Notice of Intention to file an application for a general rate case by July 1, 2001.”

On February 27, 2001, staff from the Water Division and the Office of Ratepayer Advocates (ORA) met with staff from SWS to discuss the resolution. At that meeting ORA agreed to allow SWS defer the required filing for 9 months, or until March 31, 2002. SWS sent a letter to Water Division on March 18, 2001, memorializing the meeting and requesting the delay.

NOTICE AND PROTESTS

Notice of this request is not required by the Public Utilities Code or Commission rules. The Commission’s Daily Calendar will contain a description of this resolution.

DISCUSSION

SWS’ letter contains the following reasons for deferring the required filing:

“1. Suburban Still Does Not Have Sufficient Information About The Cost Of Operating The Acquired System

“Suburban has operated the former City of West Covina water system for slightly over a year. There remain substantial uncertainties about operating costs which will not have been resolved by the required July 1, 2001 filing date.

“The greatest uncertainty concerns the sources of supply and the related costs. It is important to remember that the City purchased 100% of its water needs. It had no source

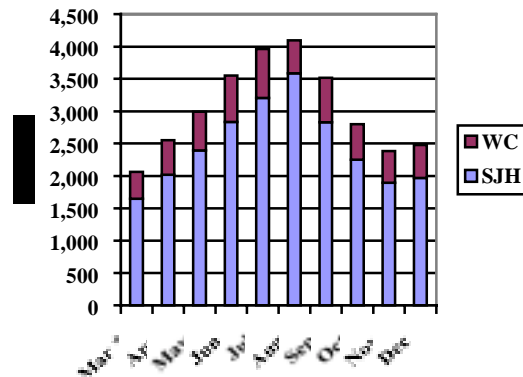
of supply of its own. Suburban had hoped to reduce the cost of service for the acquired system by introducing its own lower cost sources of supply from existing wells. But how much of these lower cost sources of supply will be available to serve the acquired system will not be known until further production history is obtained. Due to a regional contaminated groundwater plume, Suburban has been unable to increase its production from existing wells to accommodate all the needs of the acquired system. In fact, existing production has been lost due to this contamination and increased quantities of purchased water has been required to serve the Suburban customers that existed prior to the acquisition of the City system.

"Recently the State Department of Health Services (DHS) instituted its Policy 97-005 procedure for "extremely impaired water sources" and this has reduced production from Suburban's existing wells. Nearby Plant 140, well W-4, for example, exceeds the action level for NDMA (N-nitrosodimethylamine). The well has been shut down since June 1998. In October 1998, Suburban applied for a permit to operate a treatment plant to treat NDMA. The plant was constructed and was ready to operate in July 1999. However, DHS did not issue the necessary Permit to Operate until February 16, 2001. In the meantime, NDMA was also detected at well 140 W-5, a well that takes water from a lower aquifer. Thus far, the level of NDMA in W-5 is about one-half the action level and the well can be pumped into the system.

"Suburban has also detected varying levels of VOCs, Perchlorate, NDMA and nitrates at Plant 139, another of its major well fields supplying the San Jose Hills region of Suburban's service area. These detections have resulted in taking certain wells off-line. When coupled with the decline in pumping capacity associated with the general aging of Suburban's wells, the amount of lower-cost pumped water has been replaced with more expensive purchased water.

"The acquired City system now averages about 20% of the total demand of Suburban's new, expanded San Jose Hills region. If appropriate governmental approvals are received for Suburban's treatment proposals at Plant 139, the cost of supplying the system might be somewhat reduced from the current cost level. However, because of incremental treatment expenses, the overall average cost of water, even after obtaining approval, will still be greater than Suburban's cost of water incurred prior to the acquisition of the City system. In any event, we anticipate that it will take at least an additional year to determine what sources of water will be available to Suburban and how much that water will ultimately cost. If we were to make the required this July pursuant to the Resolution, we would no choice but to assume a continuation of the status quo; i.e. substantial reliance on serving the acquired system from costly sources such as MWD.

San Jose Hills District Monthly Water Demand - Year 2000



* March, 2000 was the first full month of West Covina usage

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have

“Even with respect to purchased water, there are significant uncertainties. As a direct result of the acquisition of the City system, on December 11, 2000, Suburban entered into a renewable short-term agreement with the Walnut Valley Water District (“District”) to purchase MWD water at a wholesale

rate of \$478.00 per acre-foot, plus a monthly meter charge of \$2,660.00. This is among the most expensive of all of Suburban’s water sources, but this water is needed to supply the Walnut portion of the acquired City system. Purchases from this source are limited by contract and capacity rights in the Grand Avenue Pipeline (Pipeline).

“That agreement limits not only the amount of supply, but also limits the term of supply to 90 days, automatically renewable unless either party decides to terminate with 30 days notice (sometimes known as an “evergreen renewal provision”). This unfortunate short term renewable feature of the agreement is the result of the Treasury regulations’ private activity limitations that limit the use of the Pipeline by non-governmental entities such as Suburban. Because it is expensive, this MWD connection is one of the last sources of water to be purchased. Nevertheless, particularly in summer months, its availability is vital to serving customers in the Walnut portion of the system. Should the delivery of water through the Pipeline be limited in any way, Suburban would then be forced to purchase water from Rowland County Water District at a cost of \$588.06 per acre-foot. Accordingly, there is significant uncertainty associated with: 1) the quantities and availability of pumped water; 2) the quantities and availability of purchased water; and 3) the cost of water, ranging between \$22.21 and \$588.06 per acre-foot. Suburban needs additional time to assess the ongoing availability and reliability of its source of supply.

“2. Suburban Is Still In The Process of Assimilating The Acquired System

“The full scope of work of upgrading and retrofitting the system is not known. However, Attachment A identifies the major upgrades and additions that will be needed to fully integrate the acquired system into Suburban. Only after these upgrades are complete can the full efficiencies and synergies of operation be realized. These upgrades are planned for completion in the next year.”

Water Division Staff and ORA staff agreed that it would be difficult to process a GRC under the above circumstances. At the meeting, all parties agreed to a 9-month delay to March 31, 2002.

FINDINGS

A delay in the filings of SWS’ GRC as ordered in Res. W-4180 is necessary and reasonable.

IT IS ORDERED THAT:

1. SWS shall file a Notice of Intention to file an application for a general rate case by March 31, 2002, for its entire combined system.

2. This resolution is effective on 30-day notice.

I hereby certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 24, 2001; the following Commissioners approved it:

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President

HENRY M. DUQUE

RICHARD A. BILAS

CARL W. WOOD

GEOFFREY F. BROWN

Commissioners